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SUBJECT: RESTRUCTURING AND REDUCTIONS AT LATVIAN MFA

Classified By: A/DCM Tamir G. Waser. Reasons: 1.4 (b and d)

¶1. (C/NF) Summary: A planned restructuring of the Latvian foreign ministry to reduce the size of senior leadership and staff and salary reductions necessitated by budget cuts will likely add to the frustrations of an already unhappy diplomatic service. Decision making will be further concentrated in the hands of a few people, all of whom are generally supportive of the US, but it will be harder for the Latvians to follow multiple issues concurrently. In the next six months, as many as 20 diplomats will lose their jobs and all personnel will face pay cuts. This is only one example of the very difficult choices Latvia will face in implementing the changes in fiscal policy necessitated to qualify for international financial assistance. End summary.

¶2. (C) Starting January 1, the current eight undersecretaries at the MFA will be reduced to two - handling political and administrative functions. Peteris Ustubs, currently political director at the ministry, will become the political undersecretary, overseeing EU affairs, bilateral issues, economic and security policy. The current undersecretaries for EU, bilateral and economics issues will become directors-general and security policy will be subsumed in bilateral affairs. Ivars Pundars, returning from being Ambassador to Turkey, will head up the administrative area, with the current undersecretaries for personnel, legal, and consular affairs also becoming directors-general. Ustubs and Pundars will report to new State Secretary Andris Teikmanis.

¶3. (C/NF) Contacts in the MFA generally view this as a plan by FM Riekstins to further close the limited circle of advisors he consults on issues. Many desk officers and office directors say that they are completely removed from any discussions of actual policy and limited simply to writing briefers and planning visits. The mood in the ministry has noticeably worsened in the past year.

¶4. (C/NF) While it is true that the number of decision makers in the MFA will be reduced, we believe that all of the key officials are supportive of strong and robust ties with the U.S. Riekstins, of course, has a long history as MFA state secretary and Ambassador to Washington. Ustubs has been one of this Embassy's closest contacts both in his current position and as foreign policy advisor to former PM Kalvitis.

Pundars was a close contact prior to his assignment to Turkey. Teikmanis made an effort to ensure that Ambassador Larson was among the first Ambassadors he met upon assuming the job at the beginning of December. That said, some of the demoted undersecretaries, especially on economic, bilateral and consular issues, have also been good friends and we fear that their substantive knowledge and intellectual firepower will be used less, making it harder for the minister to stay abreast of more than a few key issues at any one time.

¶5. (C) Adding to the ministry's challenges are the deep financial cuts needed to satisfy the government's drive for fiscal discipline. Already 24 vacant positions have been eliminated and 21 more need to be cut by July 1. Our understanding is that this will require letting personnel go

and while many of the vacant positions were administrative, most of the lay offs will come from diplomats. There will also be a hiring freeze. Those employees who remain will face salary cuts of 5 percent for lower paid employees and 10 percent for the higher paid ones. In addition to the salary cuts, personnel serving overseas will also see an additional cut of 15 percent in their cost of living and hardship allowances. Housing, education and medical benefits overseas will be preserved. The ministry will almost certainly close its consulate in Bonn and closures of other missions may be needed. Travel budget has been reduced drastically.

¶6. (C/NF) Comment: The cuts and restructuring coming at the same time will do little for morale at the MFA, but given the overall economic situation here, we don't see a mass exodus of employees as likely. One senior official voiced concern about the long-term impact of the staffing cuts and hiring freeze, saying that the MFA will find itself in future with more senior officials and not enough people to handle the day to day work. The situation at the MFA, especially on staff and salary reductions, is likely to be repeated across the Latvian government in coming weeks as institutions implement the tough fiscal policy passed by the government to qualify for international financial assistance.

ROGERS